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Farnam, Henry Walcott

Some effects of falling
prices

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[1895]

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Henry W. Farnham

1895

SOME EFFECTS OF FALLING PRICES.

THE strength of the bi-metallic movement, as of the silver movement and all inflationist measures, lies in the wide-spread belief that rising prices are a good thing and falling prices a bad thing. An increase of the volume of money is not desired for its own sake but for the sake of raising general prices. Hence when the bi-metallists complain of the scarcity of gold and the dethroning of silver, it does not satisfy them to point out that both gold and silver have been increasing in our country since "the crime of '73," and that even the per capita volume of the currency is greater than at any time during the greenback inflation of the civil war. They still claim that, as long as prices are allowed to fall, the currency is less than it should be and than it would be under the free coinage of silver. We must study prices as the end, therefore, rather than the volume of the currency as the means to the end, though in current discussions the two are often spoken of as synonyms, and even careful authors seem to assume that higher prices necessarily follow an expanded currency. How very far this is from being true has been abundantly shown by Dr. S. McLean Hardy in the *Journal of Political Economy* for March, 1895, and there is no need of repeating that argument here. The object of the present paper is rather to look only at the movement of prices, regardless of its causes, and to examine what classes of the population are affected by such changes, and how they are affected. But as all generalizations on such a subject are very unsafe, unless carefully qualified, no effort will be made to deduce general laws of universal application. This paper will confine itself to a study of the United States in their present stage of development. Some such restriction of the subject is very essential. For, as will be shown, a good deal of the misconception on the subject comes from the habit of transferring to modern conditions what may have been true in more primitive circumstances, and of making sweeping assertions on a very small basis of fact.

The idea that a gradual increase in the money volume of a country is a good thing, is no new one. Hume expounded it at length in an essay printed in 1752. Sir Archibald Allison took a more extreme view, while practically all modern bi-metallists advocate the same thing, some for one reason, some for another. Hume's principal argument was that an increase of money stimulated trade. The illustration that he uses shows what he had in mind.¹ It was that, if new money was brought into the country, it would be turned into capital and so would aid production, since he assumes the stimulus to take place *before* prices have been raised. But he himself gives the best answer to this in another essay, where he takes pains to prove that an increase of money does not lower the rate of interest, because it does not increase capital. But if it does not increase capital, then it cannot stimulate production in the manner described. In other words, it is precisely by raising prices, but raising them unequally, that the effect is produced.

Recent bi-metallist authors desire, as stated above, a currency depreciating in value rather than increasing in volume, but they do not all give the same reasons. Some lay especial stress on the fact that higher prices stimulate speculation, by giving the entrepreneur, the manufacturer, and the merchant a kind of a bonus, which is added to the price of his goods as they pass through his hands. This is apparently what Prof. Wagner means when he says: "Recent experiences with gold in 1848, 1851, etc., with paper-money after heavy issues have given the proof: increase of the volume of money and

¹ "Here are a set of manufacturers or merchants, we shall suppose, who have received returns of gold and silver for goods, which they sent to Cadiz. They are thereby enabled to employ more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters. If workmen become scarce, the manufacturer gives higher wages, but at first requires an increase of labour; and this is willingly submitted to by the artisan, who can now eat and drink better, to compensate his additional toil and fatigue. He carries his money to market, where he finds everything at the same price as formerly, but returns with greater quantity and of better kinds, for the use of his family. . . . It is easy to trace the money in its progress through the commonwealth; where we shall find, that it must first quicken the diligence of every individual before it increase the price of labour."—*Essays and Treatises on Several Subjects*, ed. of 1784, Vol. I, p. 304.

rising prices act as a mighty spur to production." Others emphasize more the socio-political effects, i. e. the influence exerted on the distribution of wealth among different social classes.

Thus Dr. Arendt, in his controversial article, criticizing the socialists for their adherence to the gold standard, explains that, while the diminution of the value of money tends to raise prices and bring about a general activity of business, "a rise in the value of money signifies a fall of prices. While the raw material is being worked, its price falls, so that the finished goods suffer a loss. The sale is hindered, the chances for work are small, wages fall. . . . In the relations between creditor and debtor the debtor suffers a loss. . . . A constantly increasing quantity of goods and a constantly growing expenditure of labor is necessary to satisfy the creditors. Bankruptcy is the end of it. If we are put before the alternative of injuring either the creditor or the debtor, the latter, as the weaker class, must be first protected, though an intentional injury to the creditors would also offend economic justice." And Prof. Wagner deplors the ruin of the farming class, which is threatened through the difficulty of meeting their mortgages with falling prices.²

President Andrews says that the recent fall of prices has been "an absolute and unmitigated curse to human civilization. . . . None profit from it but such as are annuitants without being producers; and we may be sure that no civilized state is going to legislate to keep prices falling, when it is once seen, as it must soon be seen, that the fall injures all but the very few unproductive people who live upon their incomes."³

These citations bring out two quite distinct considerations. One is that rising prices stimulate trade, and hence production; the other that they lessen the burden of debt and hence help certain classes, either the productive at the expense of the unproductive, or the weaker at the expense of the

¹ Die neueste Silberkrisis und unser Münzwesen, p. 79.

² Die neueste Silberkrisis, p. 79.

³ An Honest Dollar, p. 61.

stronger. In other words, rising prices are useful in their effects both on the production of wealth and on its distribution.

That any inflation stimulates speculation may be conceded. But that such stimulus is either needed or desired is open at least to very grave doubt. When we consider the readiness with which new and hazardous enterprises are entered into, the large amount of business that is done on borrowed capital, and the number of failures that result from insufficient capital, amounting in the United States to about one-third of the number,¹ it seems reasonable to hold that this country needs some check upon speculation quite as much as a stimulus.

It may be further questioned whether the kind of commercial activity that results from inflation is the surest possible index of a country's real prosperity. Since the panic of 1873, e. g., our country has not gone through any such era of speculation on rising prices as preceded that panic. The tendency of prices during the greater part of that period has been downward. Yet there are plenty of indications of steady and substantial increase in wealth and in the comfort of the mass of the people. The savings-bank deposits, e. g., have more than doubled in twenty years, as is shown by the following table:

¹ *Bradstreet's* gives the following figures, showing the importance of certain causes of failure with respect, first, to the total number failing, and then, to the total liabilities of those failing in the United States:

	PERCENTAGE OF NUMBER.				PERCENTAGE OF LIABILITIES.			
	1891	1892	1893	1894	1891	1892	1893	1894
Incompetence	16.3	18.6	16.4	14.1	8.4	12.3	7.4	10.4
Inexperience ...	4.7	5.2	6.1	4.2	3.1	3.	1.2	2.1
Lack of Capital.....	39.2	32.5	33.5	34.6	32.	27.	19.8	25.8
Total.....	60.2	56.3	56.0	52.9	43.5	42.3	28.4	38.3

—*Bradstreet's*, Jan. 26, 1895, p. 52.

1873.	.	.	.	802 millions of dollars.
1878.	.	.	.	879 "
1883.	.	.	.	1024 "
1888.	.	.	.	1364 "
1893.	.	.	.	1785 "

The postoffice is often a good index of general prosperity. In spite of a substantial lowering of the rates of postage, the revenue of that department has been as follows:

1873.	.	.	.	22 millions of dollars.
1878.	.	.	.	29 "
1883.	.	.	.	45 "
1888.	.	.	.	52 "
1893.	.	.	.	75 "

an increase of more than three-fold since 1873.

Wages have been rising steadily in their purchasing power, which was probably never as great in our country as at the present time, and the consumption of sugar per capita has increased from 43 lbs. in 1880 to 63½ lbs. in 1894. Such facts as these are truer indications of national prosperity than speculative fevers, followed by speculative collapses.

But a more intricate and more important question is the effect of a change in the level of prices upon the distribution of wealth. For this cuts directly into the great social questions of the day. And if it is really true that idle annuitants, and only idle annuitants, have gained by the late fall in prices, then certainly something is wrong, and whether bi-metallism be workable or not, some reform is needed.

Before discussing in detail the social effects of our recent fall in prices, it may not be superfluous to point out that idle annuitants may perhaps have profited, without having profited at any one's expense.

Suppose, for instance, that the purchasing power of an income derived from government bonds has increased so that the bond-holder can buy more with his interest money now than he could twenty years ago; it does not follow from this that anybody has lost. It may be, and I believe it has been, true that the increase in the productivity of indus-

try, owing to inventions and improved processes, has been so great, that the same amount of money can be earned with less exertion now than twenty years ago. This is undoubtedly true as far as the wage earner is concerned. The wage receiver, or the school teacher, for instance, who mortgaged his house twenty years ago, and still pays the same interest, though he may give the mortgagee a greater purchasing power than he did when the debt was contracted, need not, himself, make as great an exertion to obtain that purchasing power. At the worst, the fall in prices would simply mean that the mortgagee has had a share in new wealth which otherwise would have gone to the debtor. It does not, therefore, by any means follow that because one class has gained another has lost.

But let us examine more particularly who are the debtors of our country, how far they constitute a class by themselves, and how their interests have been affected by the changes in prices since 1873. It is, of course, not possible to make an exhaustive statement which shall include all the debts of one kind and another existing at any one time in a country. Considerable sums are constantly being loaned by one friend to another, without any record or publicity. Pawnbrokers' transactions also elude the statistician. Retail dealers are constantly in debt to wholesalers and jobbers, while practically all employers of labor are, excepting on pay day, constantly in debt to their help. Thus, numerically, the wage-receiving class constitute probably the most important creditor class of the country, as has frequently been pointed out, though their debts run for short periods. But if we confine our attention to those debts whose amount can be ascertained with an approximation to accuracy and which have originated in an actual transfer of money or credit, as distinguished from services or goods, we may say that the "debtor class" includes six distinct groups.

1. Corporations of various kinds, especially railroads. The extent to which corporations, apart from railroads, are indebted is not easily ascertained. The bonded debt of the

railroads alone in 1890 was \$5,105,902,025. The corporations or their stock-holders thus constitute a very important fraction of the "debtor class," but whether they really are a class by themselves is doubtful, since in so many cases the same individual is both a stock-holder and a bond-holder. If he does not fill this double rôle in one and the same company, he is likely to be a debtor in one and a creditor in another. It is difficult to say, therefore, that the railroad bond-holders constitute a creditor class distinctly separate from the railroad stock-holders as a debtor class, except to this extent, that, inasmuch as bonds are usually considered a safer and less speculative investment, it is altogether probable that women and trustees for the estates of minors are more largely represented in the creditor class, while independent capitalists, especially those with large means, are more largely represented in the debtor class.

To introduce legislation for the benefit of the debtors, therefore, would, as far as this class of debts is concerned, be to favor those who are best able to take care of themselves. But apart from this, it is altogether probable that the free coinage of silver would injure rather than help a large fraction of the "debtor class" among the corporations. About 60 per cent. of the bonded railroad debt is payable in gold.¹ As long as gold is the standard and all other money is at par in gold, no effort is made to require the specific payment of such contracts. But introduce the free coinage of silver, and it is probable that gold would be demanded in all those cases. It might then be very much harder for railroads to meet their obligations than it is at present.

2. Next we have as constituents of the "debtor class" those who obtain discounts from the banks. The bank loans not secured by real estate amounted in 1890 to 3,135 millions of dollars.² This is, however, a debt which runs for a very

¹ See YALE REVIEW for August, 1894, vol. iii, p. 219.

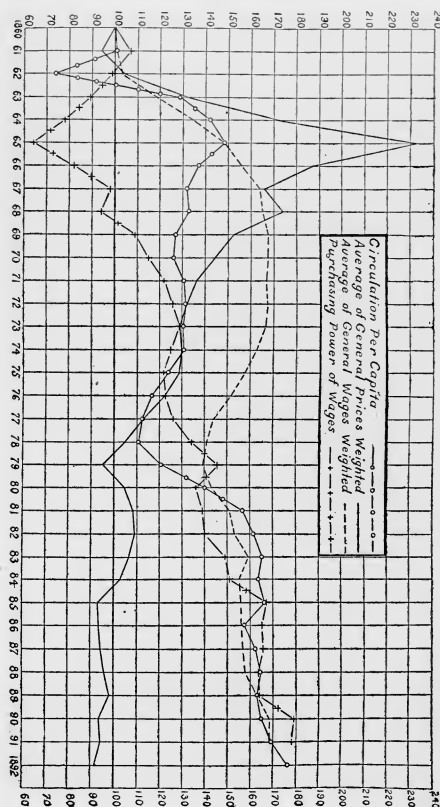
² This is made up of the following items:

State and private banks, . . .	\$1,165,023,369.
National banks, . . .	1,970,022,687.

short time. The appreciation which the money might undergo between the time at which it is borrowed and the time at which it is repaid is small in itself, and absolutely insignificant in comparison with the fluctuations in the rate of discount and the fluctuations in the price of the special commodity or line of commodities in which the individual customer deals. If, for instance, we take the weighted average of general prices given in the Aldrich report¹ as indicating by its downs and ups the ups and downs of the value of money, the extremes which that average shows since the resumption of specie payments are found in the years 1882 and 1892. In the former the average was 109.1, and in the latter 91.7. This is about 17 per cent. in ten years or about .4 per cent. in three months. Even if this fall had been continuous (which it was not) and assuming it to have been due to a general scarcity of currency (which we are very far from granting), it is obvious that its importance is infinitesimal compared with the other changing elements which the merchant or manufacturer has to take into account. The rate of discount alone fluctuates much more than this. To take what bimetalists call the steady and fatal fall of prices due to general conditions into account as one of the serious elements in the profits of the entrepreneur, is almost as if the engineer of an ocean steamer were to consider the gradual cooling of the earth's surface as one of the impediments to the speed of his boat.

3. After the bank customers come the banks themselves as one of the great elements of the "debtor class" of the country. It would be hardly fair to count the capital as one of

¹ The diagram on p. 191 shows the general movement of prices and wages based upon the figures of Sen. Doc. No. 1394, of the 52d Cong., the so-called Aldrich Report. General prices are represented by the weighted averages given in Vol. I, p. 9, and general wages, by the weighted averages on p. 14. The line showing the purchasing power of wages is simply the quotient of the wage averages, divided by the price averages. The circulation of currency per capita, as given in the Finance Report for 1894, p. cxv, is reduced to a scale uniform with that used in the rest of the diagram, \$13.85, the figure for 1860, being represented by 100.



their debts, since this is a liability to stock-holders, or a debt of the right hand to the left. We cannot but consider it a mistake for the recent convention of the bankers of New York to specify their capital and even their surplus as a part of their debts. But they certainly are very large debtors to their depositors and to their note-holders. The banks are therefore both creditors and debtors. If we take the banks of the whole country in 1890,—the year assumed for our comparison, we find their indebtedness to have been over 2,734 millions.¹ Thus, while the banks are great creditors they are also great debtors to the public.

4. The governments, Federal, State, and local, come next in the enumeration of prominent members of the "debtor class." According to the census estimate, the sum total of public indebtedness in our country in 1890 was \$2,027,170,546. The state means, for fiscal purposes, the taxpayers. They are the ones who profit if the debt is lightened, and suffer if it is aggravated. But it can hardly be said that in our country the burden of taxation due to public debt has been particularly severe. From 1880 to 1890 the interest on the total debt, Federal, State, and local, fell from \$2.95 to \$1.51 per capita, while the average rate of interest for the whole has fallen from 5.24% to 4.85%.² And in no part of the country has this fall been greater than in some of those Western States whose citizens are clamoring most loudly for relief from the burden of debt. In Kansas, e. g., the average rate of interest fell from 7.57% in 1880 to 6.04% in 1890; in Nebraska, from 8.85% to 5.95%. If our figures extended over a

¹ This is made up of the following items, given in the report of the Comptroller of the Currency for 1890, pp. 79 and 121:

Deposits, State and Private Banks, Loan and Trust Co.'s,	\$1,017,479,029.
Deposits, National Banks,	1,594,193,245.
Notes, National Banks,	122,928,084.
Total,	\$2,734,600,358.

² Compendium of the Eleventh Census, Vol. II, p. 458.

longer period, the fall would doubtless appear more striking. But let us confine our attention to the years for which we have figures. The average prices in 1880 were 104.9, in 1890 93.7, a fall of over 11 points, or an increase in the purchasing power of money of about 11%. The amount of money which Kansas had to raise in 1890 to meet the interest on a given debt was 20% less, and that which Nebraska had to raise 32% less than in 1880, while for the country as a whole it was over 7% less.

This general fall in the rate of interest is certainly a fact which should be taken into account when we speak of the losses suffered by the debtor through the appreciation of the standard of value, whether there is any causal connection between the two or not. There is, however, very good reason for believing that there is a relation, even though one may not be the cause of the other. It is more than probable that both are effects of the same cause, viz: the great increase in the productive powers of man by new inventions and discoveries. It is this great increase in and cheapening of production which has caused the prices of many commodities to fall. And this increase in production has also caused such an increase in that saved product, which we call capital, as to lower the rate of interest.

5. The last and the most important ones to be considered in this muster of the "debtor class" are those who have borrowed money on mortgage. But they really consist of two quite distinct classes, owners of city land and owners of farming land. The former aggregated in 1890 \$3,810,531,354. How far has the burden of city mortgages been increased by the fall in prices? The often quoted averages of the Aldrich report do not include land or rents. And it is land which must supply the means of meeting mortgage indebtedness. But city land has, as every one knows, risen largely in value during recent years. The assessment figures are but a poor guide to the real value of real estate, and we can be quite sure that they understate rather than overstate the increase in value. Yet even they

show that the value of land in the United States as a whole has risen in ten years from 13,036 millions of dollars to 18,933 millions, and from \$260 to \$302 per capita.¹ A large share of this increase must be credited to the cities, and has gone in the form of "unearned increment" to help lighten the burden of city mortgages. At the same time the average rate of interest fell from 6.69% in 1880 to 6.16% in 1890.² As, moreover, the average life of mortgages on lots during that period was only 4.75 years,³ it is clear that mortgagers have had abundant opportunity to take advantage of the low rate, even when they have been obliged to renew their mortgages upon expiration.

6. The owners of mortgaged farms are not in as favorable a situation as the owners of mortgaged city lots. They constitute the class whose condition deserves the most sympathy, and on whom the decline of prices has probably borne most severely. Yet they do not constitute the whole or even a very large fraction of the debtor class. In 1890, the mortgages on acres aggregated \$2,209,148,431, but the encumbrance on farms is given as \$1,085,995,960, distributed among 886,957 families.⁴ And in their case, too, the fall in the price of their products has been counterbalanced by the fall in the prices of other things, and by the fall in the rate of interest. Agricultural products have shown considerable fluctuations, but their level in 1891 was higher compared with 1873 than that of commodities in general. The rate of interest fell during the decade from 7.62% in 1880, to 7.36% in 1890. A longer period would doubtless show a more marked fall. Finally the average life of a mortgage on acres has been but 4.54 years,⁵ while in the Western and Southern States it

¹ Census Bulletin 192, p. 4.

² Extra Census Bulletin No. 71, p. 34.

³ Extra Census Bulletin No. 71, p. 14.

⁴ Extra Census Bulletin 98, p. 12.

⁵ Extra Bulletin 71, p. 2.

is still less—in Kansas 3.663 years, and in Nebraska 3.785 years.¹

But if we would interpret this debt we must take into account the objects for which it has been incurred, and the census figures show that 83% was for purchase money, improvements, business, and the purchase of the more durable kinds of personal property.² Thus all but a small percentage of the mortgage indebtedness has been incurred by people who did not have capital enough to buy and stock their own farms. The ability to borrow has enabled them to be independent farmers instead of tenants.

That the farmers in many parts of our country have been suffering can hardly admit of doubt. They have suffered from the competition of India, Argentina, and Russia; from drought and other climatic vicissitudes, and last of all the trolley car and the bicycle have come in to lower the prices of their horses. But how would an inflation of the currency, such as would be produced by the free coinage of silver, help them?

The manner in which it is supposed to work can best be illustrated by a hypothetical case. Let us take the average indebted farmer who has a mortgage of \$1,000 on which he pays 7% interest. Suppose the value of his crop to be \$1,500. If he has trouble in paying his interest, as he claims, his operating and living expenses, including the \$70 interest, must be nearly equal to his income. Let us assume that his expenses are \$1,400. Now on the theory of the inflationists, if the currency were doubled under the free coinage of silver, his price would be doubled, bringing him \$3,000 instead of \$1,500. But what assurance has he that his expenses will not also be doubled? As far as commodities are concerned, they are likely to rise quite as fast as, if not faster than, his income. If so, his margin would be only raised from \$100 to \$200, a small sum compared with the principal of his debt. The only method by

¹ Extra Bulletin 71, p. 14.

² Extra Bulletin 98, p. 3.

which he might hope to increase this would be to keep down the wages that he pays to his help. In this way the indebted farmer might for a time help himself at the expense of the wage-receiver. Therefore, assuming the most favorable case possible, the farmer would make but a small gain, and that temporarily. For on account of the short time which mortgages usually run, the farmer would not reap the full benefit of cheap money, unless he could save enough to pay off his debt in a very short time, because if he wanted to renew he would be charged a higher rate of interest, proportional to the expected depreciation of money.

The reason that so many of the mortgages and ground rents in Western cities are now made payable in gold, is that better terms are secured, and the rate of interest would undoubtedly rise at once, if the free coinage of silver were introduced. Now it so happens that in the States which are supposed to be most clamorous for free silver the average life of mortgages is the shortest, in some running as low as $2\frac{1}{2}$ years and less. That means that in these States $\frac{1}{2}$ or $\frac{1}{3}$ of the entire indebtedness falls due in each year and would be subject to renewal on more onerous terms, unless the owners could pay it off, while all new loans, unless made in gold, would be made at a higher rate of interest. At best, therefore, the farmer would make but a small gain, and this he would make not entirely at the expense of the mortgage-holder, but partly also at the expense of the wage-receiver and partly at that of other farmers, who might want to borrow.

This antagonism between the landed interests and the wage-receivers is well understood in Germany, where the Socialists, as representatives of the wage-receivers, find it for their interest to support the gold standard, as against the Agrarians, among whom the silver party finds many of its adherents.

If we turn now to take a glance at the "creditor class," we shall find it even more difficult to make a complete catalogue, but we can find enough to decidedly modify the cur-

rent notion. It contains, of course, the banks of discount, who are both creditors and debtors. It also contains the depositors in savings-banks, whose funds are in the main invested either in mortgages or in bonds. The total deposits in 1890 were \$1,524,844,506, distributed among 4,258,893 persons, making an average of \$358.03 for each depositor. The savings-bank deposits alone represent more than half as much again as the farmers' debt, owned by five times as many persons.

To what extent the funds of widows and orphans, and the funds of charitable and educational institutions are invested in bonds and mortgages can only be guessed at. It certainly must be very great. President Thwing estimates that the colleges have some 80 millions invested in bonds and mortgages.¹ The investors in building and loan associations with assets of \$450,000,000 also belong to the creditor class, as well as policy-holders in life, fire, and accident insurance companies. Their credits are, to be sure, contingent, while their debits to the companies are fixed. They might seem, therefore, to gain more than they lose by rising prices, and they do as a whole. But the gains and losses are so distributed that the loss falls on the victim, precisely at the time at which he is least able to bear it. The man whose house does not burn down would, under free coinage, have the advantage of paying his premiums in a cheap money. The man whose house does burn down would have to accept a cheap money in payment for his insurance and rebuild under inflated prices. The amount thus involved in the whole country is very considerable. The fire losses alone amount to over \$100,000,000 a year, and the losses of life insurance companies to \$137,000,000. The annual interest charge borne by encumbered farms was in 1890, \$76,728,077.² Thus the fire losses alone, exceed by nearly one third, the interest paid by farmers.

"For one sweet grape, who will the vine destroy."

¹ The Forum, June, 1895, vol. xix, p. 439.

² Extra Census Bulletin, No. 98, p. 19.

And the shrewd populist, who flatters himself that by the free coinage of silver he can force his creditor to take a depreciated money, would see the question in a new light, if his house or barn were to burn down and he found himself obliged to take the same kind of money from his insurance company.

In the same class with policy-holders must be placed the members of numerous benefit societies and fraternal organizations, Masons, Odd Fellows, Foresters, etc., as well as members of trade-unions which give benefits for sickness, loss of tools, and other misfortunes. The amount thus disbursed in the course of a year to the unfortunate must amount to many millions.

Finally in addition to the creditors in the usual sense of the word, the entire wage-receiving and salaried class is benefited by falling prices, not as creditors, but owing to the fact that wages and salaries do not usually respond to changes in the currency as rapidly as the prices of commodities. Indeed, since the resumption of specie payments, the tendency of wages in our country has been steadily upward in spite of falling prices. Pensioners, who represent an annual income of some \$140,000,000, are likewise interested in low prices.

To sum up the results of this inquiry, the "debtor class" includes among others six well defined groups, with an indebtedness in 1890 as follows:

	Millions.
Railroads	\$5,106
Borrowers of Banks.....	3,135
Government	2,734
Banks [Deposits and Circulation].....	2,027
Owners of city lots	3,810
Owners of acres.....	2,209
	\$19,021

The "creditor class" includes besides the rich investors, "gold bugs" and "bloated bondholders:"

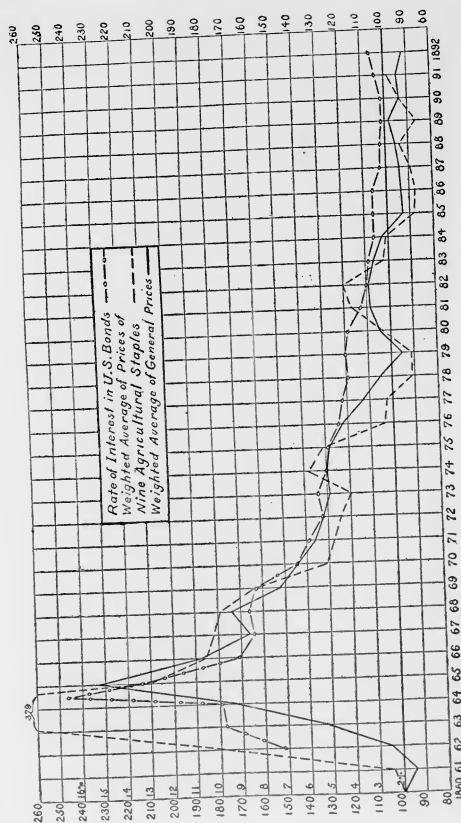
	Millions.
Depositors in Savings Banks	\$1,524
Depositors and note holders in banks of discount	2,734
Banks [discounts]	3,135
Institutions of learning.....	80

In addition to these, the following are interested in falling prices for one reason or another:

Policy-holders in insurance companies.
Members of benefit societies, fraternities, trade-unions.
Wage-receivers and salaried people.
Pensioners.

This enumeration does not pretend to be exhaustive, but it goes far enough to show that the question of high or low prices is not settled by simply assuming that the debtor class includes the industrious and poor, and the creditor class the rich and idle. The interests are, on the contrary, curiously intermingled. For on the side of the struggling farmer, who thinks that inflation will lighten his debts, are mustered the great railroad corporations and the government, while on the side of the idle annuitant stand the college, the charitable institution, the savings-bank depositor, the beneficiary of insurance and benefit associations, the policy-holder in insurance companies, the trade-unionist, the pensioner, the day laborer, the mechanic, and the school teacher.

Instead of its being true that only idle annuitants have profited by the fall in prices, they have not profited at all, if we take into account the fall in interest and the losses suffered through bankruptcies and defaults. Here we can give only approximate figures. But the rate of interest received by an investor in U. S. bonds is a pretty fair indication of the general rate, and this has fallen from $5\frac{1}{4}$ per cent. in 1873 to $2\frac{5}{8}$ in 1892, or 52 per cent., while prices have fallen during the same period from 129 to 91.7 or 29 per cent. If the fall in the rate of interest realized on United States bonds may be taken to fairly represent the fall in the general rate on long term investments, then the idle annuitant, who inherited in 1873 a fortune in greenbacks and lives on the proceeds, would find that, while the purchasing power of his money had increased in nineteen years by 29 per cent., the number of dollars which he was able to draw as interest had



declined 52 per cent.¹ If we add to this the losses suffered by default, the position of the idle annuitant is not so very eligible after all. Here again we cannot give exact figures. But it is estimated that the railroads now in the hands of receivers have outstanding securities aggregating \$1,354,000,000., or about one-quarter of the total bonded railroad indebtedness. If this is the case, it is evident that a considerable allowance must be made for bad debts in estimating the income of the man who lives on invested funds. These losses cannot, of course, be attributed to the fall in prices, but they are one incident in the condition of the investor which should be taken into account, when we consider the general effect of the economic history of the past twenty years.

The class which has probably gained the most from falling prices during this period is the wage-receiving class, for they have had an increase in income, and (barring rent) have enjoyed falling prices. And it is this class which would probably suffer the most, if the currency were to be sufficiently inflated to raise prices.

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¹ The first part of this statement is based on a table, made by Mr. E. B. Elliott, government actuary, and printed with a letter of Mr. Edward Atkinson in *Bradstreet's* for July 31, 1886; the latter part is based on a computation made by the writer. The following table is constructed by taking Mr. Elliott's figures, based on the price of U. S. 6's of 1881, for the years 1862 to 1877, and supplementing them by calculations based on the opening price on the first of each January of 4's of 1907. Its facts are shown in a graphic form in the diagram on page 200.

RATE OF INTEREST REALIZED BY AN INVESTOR IN U. S. BONDS.

	Per Cent.	Per Cent.	Per Cent.		
1862.....	7.2	1873.....	5.4	1885.....	2½
1863.....	9.7	1874.....	5	1886.....	2½
1864.....	9.9	1875.....	4.9	1887.....	2½
July, 1864.....	16.0	1876.....	4.4	1888.....	2½
1865.....	13.4	1877.....	4.2	1889.....	2½
1866.....	9.1	1878.....	3½	1890.....	2½
1867.....	8.4	1879.....	4	1891.....	2½
1868.....	8.6	1880.....	3½	1892.....	2½
1869.....	8.3	1881.....	3¼	1893.....	2½
1870.....	6.4	1882.....	3	1894.....	2½
1871.....	5.9	1883.....	2½		
1872.....	5.2	1884.....	2½		



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